

# STRATEGIES FOR ADDRESSING REVERSIONARY RIGHTS

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# Definition - Reversion

- Upon expiration of the term of a lease, the ownership of the permanent improvements made by the lessee reverts to the lessor (airport sponsor) or improvements must be demolished or removed at lessee's cost.

# The law

- Sponsor must maintain good title (49 USC 47106(b)(1) and Grant Assurance 4)
- Sponsor cannot take action that may deprive it of its rights and powers to direct and control airport development (Grant Assurance 5)
- Options to acquire title are unacceptable (Order 5190.6B ¶ 6.3(b))
- Lease term must be reasonably necessary to amortize tenant's investment (Order 5190.6B ¶ 12.3(b)(3))
- Title to improvements must vest in sponsor at lease end (Order 5190.6B ¶ 12.3(b)(5))



# The real world

- It's **my** hangar
- I put blood sweat and tears into **my** hangar
- **My** hangar is my man cave
- I invested in **my** hangar
- It has always been **my** hangar
- You can't take **my** hangar
- ...and so on



# Impermissible work arounds – at lease end

- Sponsor must acquire improvements
- Tenant can pay reduced rent after reversion
- Sponsor must remove improvements
- Sponsor pays fair market value of improvements
- Assignments/ transfers to extend lease term

# Management pointers

- Know status of each lease improvement
- Prepare tenants *long in advance* for reversion
- Watch for deliberate damage to improvements
- Bright line
- No exceptions for convenience, friendship, loyalty
- Appraise FMV (not depreciated value) at lease end; reset lease rate



# Discussion